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DEPT PLEASE PASS TO USTR; OPIC FOR JAMES WILLIAMS; USTDA FOR PIERCE DAVIS

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SUBJECT: NIGERIAN MINING SECTOR REplete WITH CHALLENGES AND OPPORTUNITIES

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11. Summary: On July 15, US Trade and Development Agency officials met with representatives of the private mining sector and the Nigerian Geological Survey Agency. They discussed the untapped opportunities in the mining sector since the passage of the 2006 Minerals and Mining legislation. The greatest challenges to harnessing these opportunities were access to financing and technical expertise. Financing would be crucial to the development of a mechanized mining sector with export capacity. End summary.

Solid Mineral Deposits Look Promising

12. On July 15, Enoch Ebong, Acting Regional Director and Pierce Davis, Nigeria Country Manager, US Trade and Development Agency (USTDA) met with representatives of the private mining sector and the Nigeria Geological Survey Agency (NGSA). Sele Obomhense, Managing Director (MD), Mekios; Chief Emeka Okengwu, Chief Executive Officer (CEO), Kulfana Mining; and Omokhoa Okaisabor, Director, Kulfana Mining, emphasized the enormous potential for growth of the mining sector. While solid mineral deposits have not been thoroughly assayed in most locations, limited assaying in some areas had revealed ample deposits of coltan (columbite-tantalite), fine-grained gold, tin, and coal. Henry Davies, Assistant Director for Special and International Projects, NGSA, and Mr. N. Ayi, Deputy Director - Regional Geology, NGSA, said Nigeria was replete with solid mineral deposits, which remained to be explored.

Sectoral Constraints: Financing And Technical Expertise

13. Lack of financing was the biggest challenge for private mining firms. Banks typically did not lend to this sector, said Obomhense. When financing was available, a lack of understanding of the sector made investors wary. In 2006, under the small and medium enterprises equity investment scheme (SMEEIS), Mekios received naira 48 million (USD 381,000) from First Fund, a venture capital arm of First Bank. Return on the investment was not what First Fund anticipated, and the fund called for an early exit. Understanding the risks and longer-terms nature of investment in the sector was therefore

critical.

¶4. With no funds to purchase machinery, most mining companies remained artisanal, in turn, limiting exports. Obomhense said most of his customers were Chinese firms, as they were willing to accept smaller volumes. Mekios had the capacity to export 25 tons of solid minerals every two months, whereas Western customers required 20-40 tons per month. A Russian customer, for example, required 40 tons of coltan per month.

¶5. Private sector representatives complained of a lack of technical expertise at all levels. Mekios had suffered significant losses of fine-grained gold, what Obomhense termed "invisible gold", because the company's engineers did not know how to detect the deposits and process them. Obomhense later identified a California-based company, Boleo, which possessed such technology.

The Regulatory Framework Is Good

¶6. Since 2002, the Federal Government aimed to modernize the mining sector. With the assistance of a USD 120 million World Bank credit, this effort resulted in the 2006 Minerals and Mining Act. The legislation had three components: to fold artisanal and small-scale mining into the formal economy; strengthen governance and transparency through the establishment of autonomous mineral titling and land registration system, a new mining code and attendant regulations; and support private-sector led production and restructuring of state-owned enterprises.

¶7. Obomhense, Okengwu, and Okaisabor agreed that the regulatory system was good. With a fully automated cadastre, licensing was straightforward and was no longer a political process. The new legislation was sound and facilitated foreign direct investment (FDI).

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Filling The Data Gap

¶8. To fill the data gap resulting from the lack of continuous investment since the 1960s, the NGSA relied on survey data from international oil companies. The NGSA also undertook regional mapping, aerial and regional geophysics projects, and the mapping of mineral targets. Data was updated by private firms as they sought and renewed licenses. This data was synthesized into commodity maps and an occurrence database for each state, available to the public in digital format.

¶9. Davies and Ayi asked for assistance in geomapping inaccessible areas using remote sensing and ground truthing. Capacity building was also needed, as there were few NGSA staff who possessed the specialized skills necessary to undertake research. Ayi said the U.S. Geological Survey (USGS) had collaborated with the NGSA to map the federal capital territory in Abuja, and he hoped this collaboration could continue in the future.

¶10. Pierce Davis and Enoch Ebong cleared this cable.